



MONTANA LEGISLATIVE BRANCH^B

Legislative Fiscal Division

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Director
AMY CARLSON

EXHIBIT 1
DATE 4-19-13
N/A

DATE: April 16, 2013

TO: Sen. Jeff Essmann, Senate President
Rep. Mark Blasdel, House Speaker
Sen. Bruce Tutvedt, Chair, Senate Tax Committee
Rep. Mike Miller, Chair, House Tax Committee
Sen. Art Wittich, Senate Majority Leader
Rep. Gordon Vance, House Majority Leader
Sen. Jon Sesso, Senate Minority Leader
Rep. Chuck Hunter, House Minority Leader

FROM: Amy Carlson, Legislative Fiscal Analyst
Stephanie Morrison, Revenue Analyst
Nick Brown, Revenue Analyst

RE: General Fund Revenue Update #3

PURPOSE OF REPORT

This is the third of the monthly revenue updates throughout the session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2015 biennium General Fund revenue estimate. This update is based on actual revenue collections received through the end of March 2013, and the April update of national and Montana forecasts from IHS Global Insight (IHS).

SUMMARY

General fund revenue collections continue to show strong growth over FY 2012 amounts, and are currently above the overall growth contained in SJ 2. Underlying economic indicators have continued to improve since the IHS January forecasts were used to develop the estimate contained in SJ 2. Much of the higher-than-anticipated growth in year-to-date collections may be a result of revenue shifting due to the uncertainty in future federal tax rates at the end of CY 2012.

If the IHS April forecasts and an adjustment for revenue shifting into calendar year 2012 are used in the LFD revenue models, total general fund revenue estimates increase by \$50.2 million over the three-year forecast period. The table below shows the Legislature's official total general fund estimate as contained in SJ 2 and the model output based on the February, March, and April revised assumptions

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$1,871.0	\$1,871.0	\$1,871.0	\$1,871.0				
2013	1,995.0	2,021.5	2,017.8	2,014.4	\$19.4	8.5%	6.6%	7.7%
2014	2,056.3	2,074.9	2,066.5	2,068.4	12.2		3.1%	2.7%
2015	2,137.4	2,157.7	2,153.2	2,156.1	18.7		3.9%	4.2%
3-YR	\$6,188.6	\$6,254.2	\$6,237.5	\$6,238.8	\$50.2			

The April revised national forecast from IHS is based on the following key assumptions:

- The housing recovery continues to gather momentum with household formation reviving, and the recovery in demand is spreading from rental units to owner-occupied units
- The sequester will continue through the end of the third quarter, rather than through the end of the second, as assumed last month
- Continued quantitative easing by the

YEAR-TO-DATE COLLECTIONS

FY 2013 general fund revenues through the end of March are \$103.4 million or 8.5% ahead of FY 2012 revenues through the same period; the increase is above the forecast growth of 6.6% contained in SJ 2.

General Fund Revenue Monitoring Report (in Millions)							
Revenue Source	Actual FY 2012	SJ2 Estimate FY 2013	SJ2 Estimate % Change	3/31/2012 FY 2012	3/31/2013 FY 2013	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$898.851	\$983.953	9.5%	\$680.207	\$749.634	\$69.426	10.2%
Property Tax	236.662	241.741	2.1%	133.002	138.633	\$5.631	4.2%
Corporation Tax	127.771	150.658	17.9%	82.178	117.711	\$35.533	43.2%
Vehicle Taxes & Fees	99.954	100.833					

Individual Income Tax

Individual income tax collections are \$69.4 million or 10.2% above last year. The estimate contained in SJ 2 forecasts a FY 2013 growth of 9.5%.

As with the March update, the April individual income tax model output shown below contains a FY 2013 adjustment of \$20 million to account for an expected change in taxpayer behavior. No reduction in FY 2014 and FY 2015 capital gains income is included since it is assumed the accelerated realization of gains would have otherwise been spread over several years in the future. Because no reduction is included for FY 2014 and FY 2015, there may be a small downside risk to the estimate in those years.

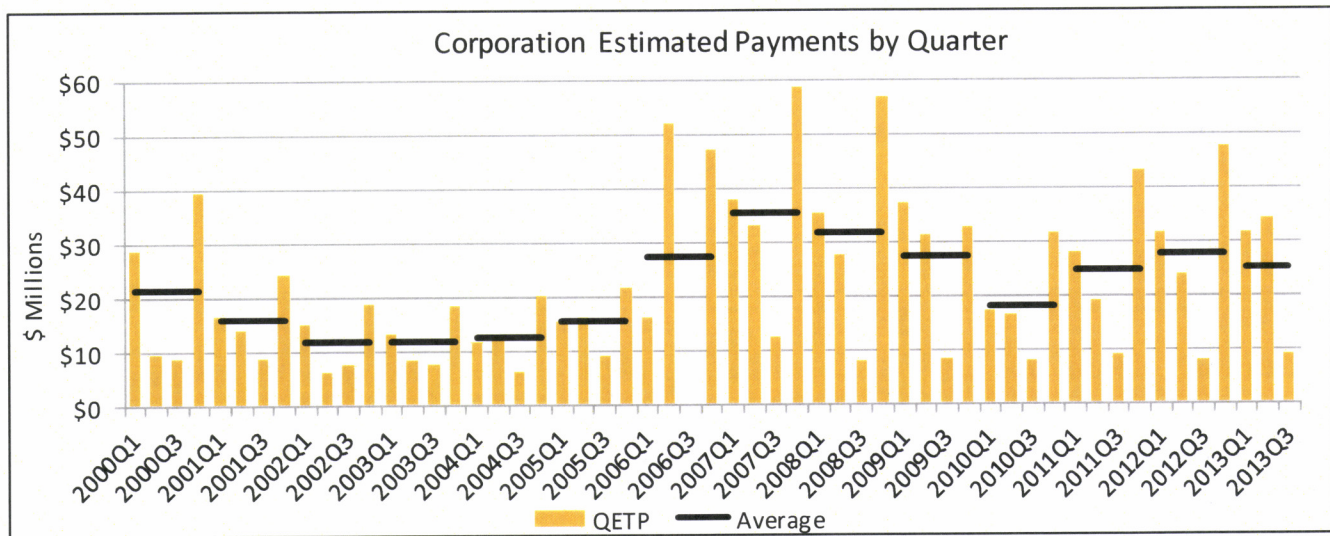
FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$898.9	\$898.9	\$898.9	\$898.9				
2013	984.0	1,010.7	1,010.0	1,010.3	\$26.3	10.2%	9.5%	12.4%
2014	1,039.2	1,052.1	1,049.6	1,052.6	13.4		5.6%	4.2%
2015	1,104.9	1,121.0	1,118.4	1,121.3	16.4			

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$236.7	\$236.7	\$236.7	\$236.7				
2013	241.7	241.7	241.7	241.7	\$0.0	4.2%	2.1%	2.1%
2014	246.6	246.6	246.6	246.6	-		2.0%	2.0%
2015	254.7	254.7	254.7	254.7	(0.0)		3.3%	3.3%
3-YR	\$743.0	\$743.0	\$743.0	\$743.0	(\$0.0)			

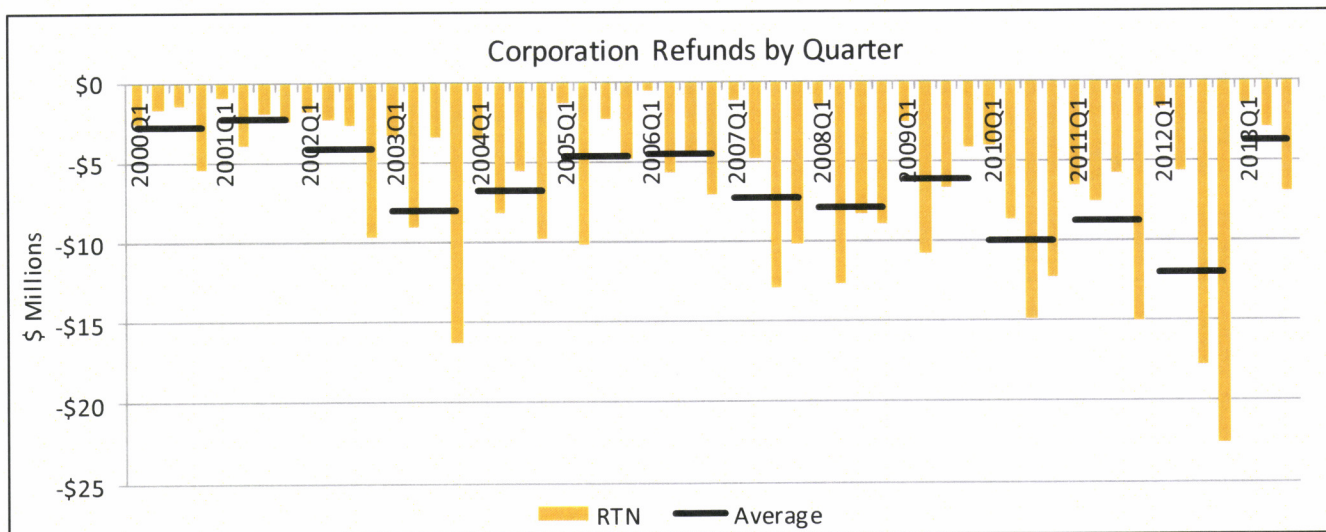
Corporation License Tax

Corporation license tax collections are \$35.5 million or 43.2% above last year primarily due to an increase in estimated payments and a reduction in refunds. The estimate contained in SJ 2 forecasts a FY 2013 growth of 17.9%.

Refunds are unusually low, and if this pattern continues, total collections may be even higher than anticipated. Based on historical collection averages, there



Refunds through the first two quarters of the fiscal year are typically not a reliable indicator of total refunds for the year, as shown in the chart below. According to the Department of Revenue, in FY 2012, there were five large refunds totaling nearly \$11 million due to changes in filing methods, factor changes, and net operating loss carrybacks.



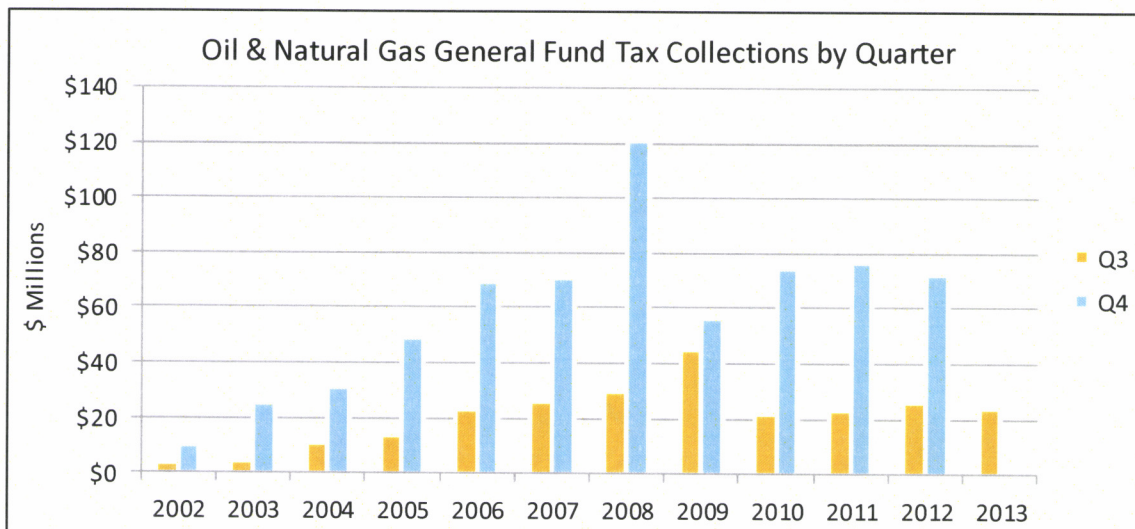
FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$100.0	\$100.0	\$100.0	\$100.0				
2013	100.8	100.9	100.8	100.8	\$0.0	-1.6%	0.9%	0.9%
2014	101.4	101.5	101.5	101.5	0.1		0.5%	0.7%
2015	102.1	102.2	102.2	102.2	0.1		0.7%	0.7%
3-YR	\$304.3	\$304.5	\$304.5	\$304.6	\$0.3			

Oil & Natural Gas Production Tax

Oil and natural gas production tax collections are \$1.8 million or 6.9% below last year as of the end of January. These revenue collections represent the taxes on production from the first quarter of FY 2013. The estimate contained in SJ 2 forecasts a FY 2013 growth of 1.2%. The April model forecasts a decline of 3.5% in FY 2013, followed by modest growth in FY 2014 and FY 2015.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$97.6	\$97.6	\$97.6	\$97.6				
2013	98.8	95.8	94.4	94.2	(\$4.6)	-6.9%	1.2%	-3.5%
2014	99.3	102.3	97.5	96.9	(2.4)		0.6%	2.9%
2015	97.4	99.6	97.7	97.4	-		-1.9%	0.5%
3-YR	\$295.5	\$297.7	\$289.6	\$288.5	(\$7.0)			

Due to the time lag between production and when the taxes are distributed to the general fund, it can be difficult to draw conclusions from year-to-date activity. The chart below shows fiscal year collections by quarter. The first quarter of production taxes are remitted to the general fund in the third quarter, while the production taxes for the three remaining quarters are collected (or accrued, as in the case of the fourth quarter of production) in the last quarter of the fiscal year.

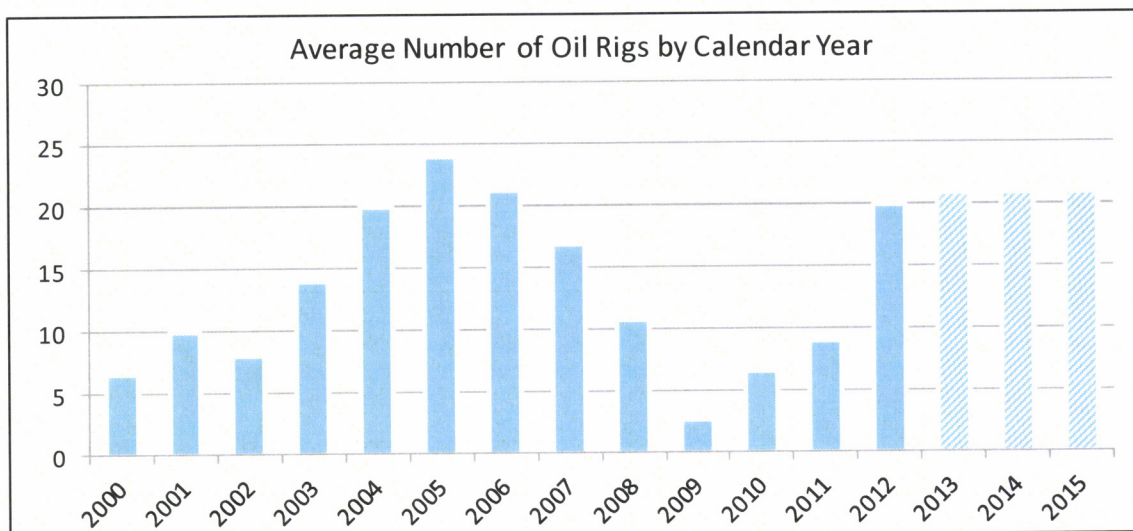
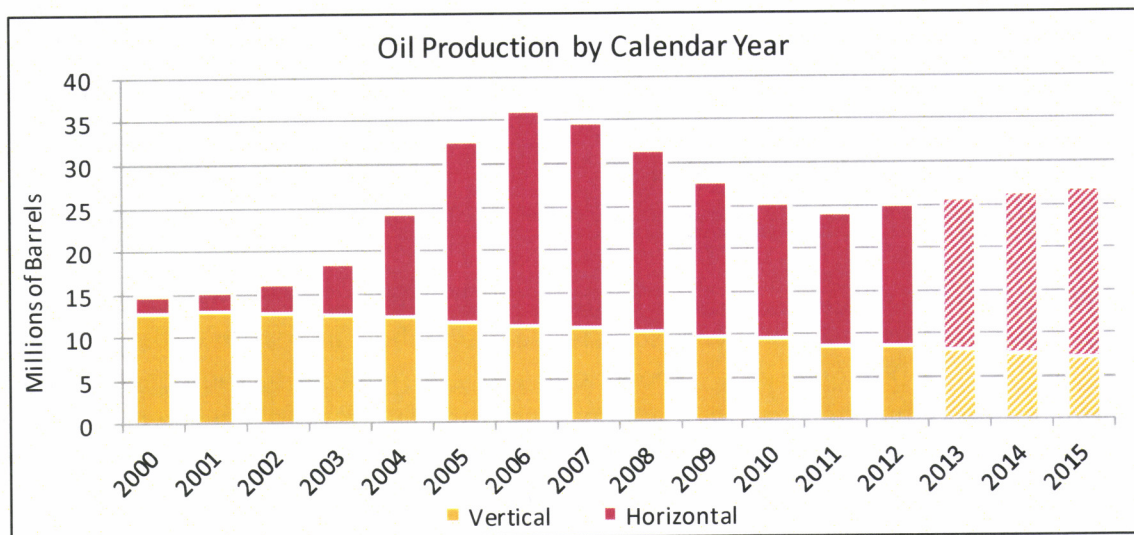


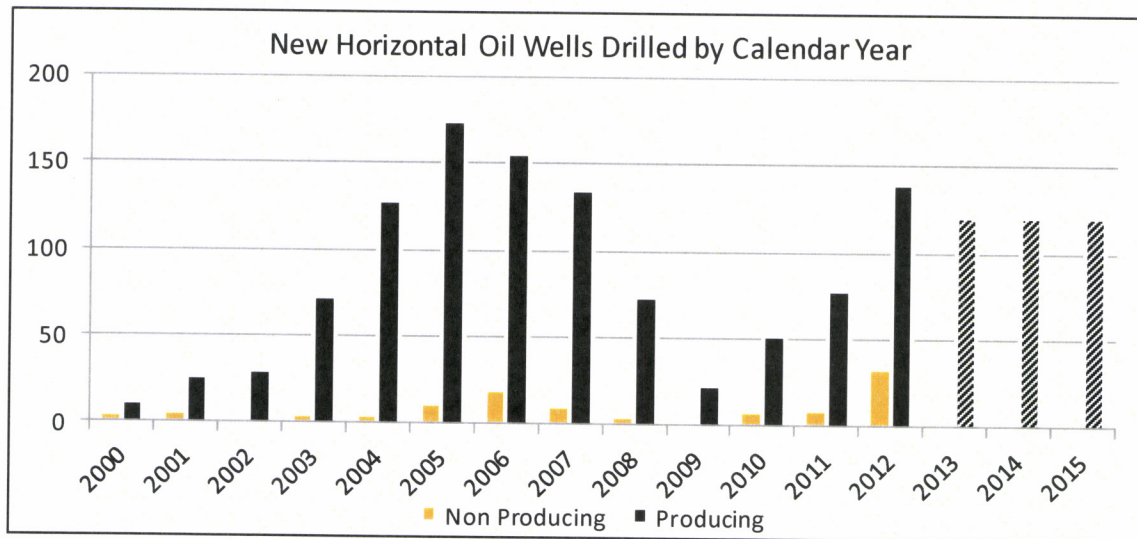
Oil Production

The slow growth in overall oil production is attributable to the continuing decline of production from vertical wells; horizontal production appears to be growing again after five consecutive years of decline following the 2006 peak.

Forecast Oil Production by Month of Estimate (in Millions of Barrels)					
CY	January	February	March	April	Apr-Jan
2013	25.7	28.0	27.3	27.3	1.6
2014	26.3	28.4	27.9	27.9	1.6
2015	26.8	28.7	28.4	28.3	1.5

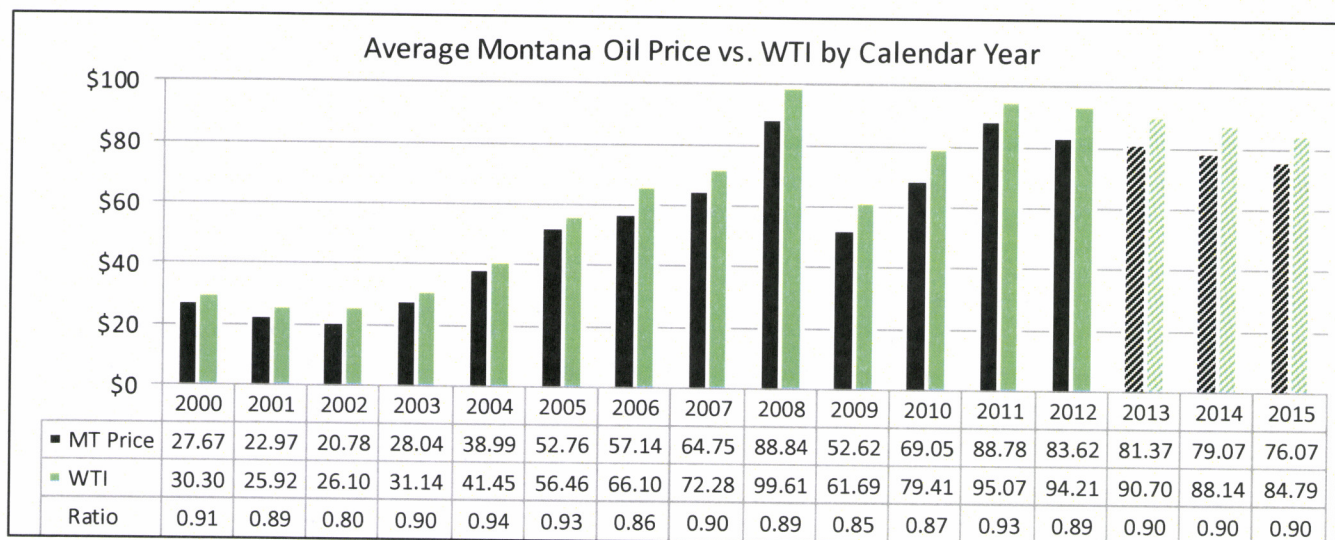
The oil and natural gas production tax estimate contained SJ 2 was based on January price data, but the most recent production data came from June 2012. The April estimated production shown in the table above is based data through February 2013. The charts below illustrate the historical trends; forecast values are based on SJ 2.





Oil Price

The table in the chart below shows the ratio between the average Montana oil price and the West Texas Intermediate (WTI) price. The forecast oil price is that contained in SJ 2.



Insurance Tax

Insurance tax collections are up \$1.0 million or 3.5% over last year. The estimate contained in SJ 2 forecasts a growth of 1.7% in FY 2013.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$59.0	\$59.0	\$59.0	\$59.0				
2013	59.9	59.7	59.7	59.8	(\$0.2)	3.5%	1.7%	1.4%
2014	52.0	51.8	51.8	51.8	(0.2)		-13.2%	-13.3%
2015	54.1	53.9	53.9	53.9	(0.2)		3.9%	4.0%
3-YR	\$166.0	\$165.5	\$165.4	\$165.5	(\$0.5)			

Video Gambling Tax

Video gaming tax collections are up \$3.1 million or 12.3% over last year, primarily due to the addition of video line games approved by the 62nd Legislature. The positive impact of this legislation is expected to continue with some modest improvement in overall machine play. The estimate contained in SJ 2 forecasts a growth of 7.2% in FY 2013.

The IHS April forecast did not change Montana per capita personal income significantly; therefore the model output remained the same.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$53.8	\$53.8	\$53.8	\$53.8				
2013	57.7	57.7	57.7	57.7	\$0.0	12.3%	7.2%	7.2%
2014	59.9	59.9	59.9	59.9	(0.0)		3.9%	3.8%
2015	62.1	62.1	62.1	62.1	(0.0)		3.7%	3.7%
3-YR	\$179.8	\$179.8	\$179.8	\$179.7	(\$0.0)			

Remaining Sources

Revenue from the remaining sources was 4.8% below FY 2012, primarily due to timing in all other revenue. All other revenue collections are \$8.5 million below last year at this time due to fund transfers in HB 604 and revised laws regarding stale-dated warrants in SB 335, both passed by the 62nd Legislature. In FY 2012, \$10.9 million was transferred to the general fund per HB 604, and the unusually high \$3.2 million in abandoned property transfer reflected the changes due to SB 335.

The U.S. Department of Interior is cutting federal mineral payments to 35 states by about \$110 million this fiscal year as part of the automatic federal spending cuts. Montana's share of the reduction is \$2.5 million, according to figures released by the Interior Department's Office of Natural Resources Revenue. The reduction is assumed to apply only to FY 2013, without any recoup in payments in subsequent years.

The IHS April forecast resulted in small changes—both positive and negative—to most of the remaining sources. These changes, coupled with the revised U.S. Mineral Royalties estimate for FY 2013, resulted in small changes to the model output, as shown below.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$297.4	\$297.4	\$297.4	\$297.4				
2013	301.4	301.2	301.4	297.7	(\$3.6)	-4.8%	1.3%	0.1%
2014	303.7	303.3	303.4	302.5	(1.2)		0.8%	1.6%
2015	307.2	306.5	306.6	306.1	(1.0)		1.1%	1.2%
3-YR	\$912.2	\$911.0	\$911.4	\$906.4	(\$5.9)			

Guarantee Account

The guarantee account is used to pay BASE aid to school districts. It is the first source of funding for BASE aid and is statutorily appropriated. The amount of BASE aid not paid for by the guarantee account is paid for from the general fund. Revenue in the guarantee account includes distributable interest from the investments at the Board of Investments, income from state trust lands, and excess oil and gas revenue from school districts.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	Apr 15 Model Output	\$ Difference	SJ 2 Estimated Growth	Apr 15 Model Growth
2012	\$102.4	\$102.4	\$102.4	\$102.4			
2013	68.1	65.5	65.5	65.5	(\$2.6)	-33.5%	-36.1%
2014	65.7	57.5	57.4	57.4	(8.3)	-3.5%	-12.3%
2015	62.0	54.7	54.6	54.6	(7.4)	-5.6%	-5.0%
3-YR	\$195.8	\$177.6	\$177.5	\$177.5	(\$18.3)		

DATA SOURCES

- IHS national & Montana economic forecasts
- IHS reports and analysis
- SABHRS month-end data through March
- Board of Oil & Gas production data
- DOR selected tax return data